

Chairman:

William R. Gillis
Commissioner, Washington
Utilities Commission
Chandler Plaza Building
P.O. Box 47250
Olympia, WA 98504-7250

Rural Task Force**Members:**

Robert Schoonmaker
GVNW Consulting, Inc.
Colorado Springs, Colorado

Carol Ann Bischoff
CompTel
Washington, DC

David R. Conn
McLeod USA, Inc.
Cedar Rapids, Iowa

Gene DeJordy
Western Wireless Corp.
Bellevue, Washington

Billy Jack Gregg
WV Consumer Advocate. Div.
Charleston, West Virginia

Evelyn Jerden
Western NM Telephone Co.
Silver City, New Mexico

Joel Lubin
AT&T
Washington, D.C.

Joan Mandeville
Blackfoot Telephone Co.
Missoula, Montana

Christopher McLean
Rural Utilities Service, USDA
Washington, DC

Jack Rhyner
TelAlaska
Anchorage, Alaska

David Sharp
Innovative Communication
Corp.
St. Thomas, Virgin Islands

Stephen Ward
ME Public Advocate Office
Augusta, Maine

*The Rural Task Force is an
independent advisory panel
appointed by the Federal-State
Joint Board on Universal
Service to provide guidance to
the Federal Communications
Commission and the Federal-
State Joint Board on Universal
Service.*

December 14, 2000

Magalie Roman Salas, Secretary
Federal Communications Commission
445 12th Street, SW TW-A325
Washington, D.C. 20554

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Subject: Rural Task Force *ex parte* clarification of double-counting issue regarding Rural Task Force Recommendation (CC Docket No. 96-45)

Dear Ms. Salas:

On December 14, 2000, the Rural Task Force sent to the Federal-State Joint Board on Universal Service an *ex parte* letter clarifying an issue concerning "double-counting" of universal service funds in a competitive scenario under the Rural Task Force Recommendation. Please find enclosed an original and three copies of the *ex parte* communication. We are forwarding an electronic copy on diskette to Sheryl Todd in the Common Carrier Bureau.

Sincerely,

Wm R. Gillis

William R. Gillis
Chair, Rural Task Force

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List A B C D E

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Rural Task Force

December 14, 2000

Commissioner Susan Ness, FCC Joint Board Chair
Commissioner Laska Schoenfelder, State Joint Board Chair
Commissioner Harold Furchtgott-Roth
Martha Hogerty, Public Counsel
Commissioner Rob Rowe
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I understand questions have been raised as to whether the RTF proposal would "double count" creating the potential of a "spiraling" growth to the fund as Competitors enter areas served by a rural telephone company. The purpose of this letter is to clarify that the Rural Task Force has considered this potential and the Recommendation's New Indexed HCL Fund Cap provides a specific additional constraint to prevent "spiraling" growth to the HCL Fund when CETCs are operating in a study area.

Under the current mechanism, Section 54.307 of the FCC's Rules provides for the per-line support to be portable when a CETC "captures" a line from an incumbent ETC or when a CETC serves "new subscriber lines" in the incumbent ETC's study area. As much of the incumbent's reported cost of providing these loops are fixed, the incumbent does not shed much reported cost when it loses a line to a CETC; thus, in subsequent years, the per-line support that would be made portable would be increased. This phenomenon is exacerbated as "new subscribers" are served by the CETC because the higher per-line support is applied to both carriers' lines, resulting in the potential for the current HCL Fund to grow significantly as competition increases.

The Recommendation addresses this problem in two ways. First, it provides for a new indexed cap on the growth of the incumbents portion of the HCL Fund. Specifically, the maximum annual growth to the fund is limited to the Rural Growth Factor (RGF), which is a measure of the change in ILEC Rural Carrier loop count plus inflation. (See Recommendation at Subsection IV(B)(1)(b)).

Second, for those study areas where competition has entered, the Recommendation describes in Subsections IV(B)(1)(c)(ii)(A) through IV(B)(1)(c)(ii)(C) the establishment of a study area specific per-line support that is allowed to grow by the RGF. Absent any other constraint, this per-line support, when applied to both the incumbents' and the CETCs' lines in the study area could yield total support for the study area exceeding that which the incumbent would have received alone under the New Indexed Capping mechanism. However, Subsection IV(B)(1)(c)(ii)(D) further constrains the *incumbent's* portion of the HCL support in the study area to what that study area's share of the new cap mechanism would have yielded under Subsection IV(B)(1)(b). This additional constraint

Letter regarding RTF Recommendation

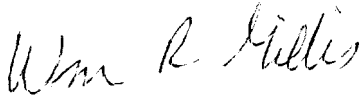
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has the de facto effect of constraining the incumbent's per-line support, and therefore, under the portability rules of Section 54.307, a corresponding constraint on the CETCs' per-line support. Thus, the Recommendation guards against explosive growth of the HCL Fund due to CETC entry.

If there is need for further clarification or additional information, please contact me.

Sincerely,

A handwritten signature in cursive script, reading "William R. Gillis".

William R. Gillis

Chair, Rural Task Force

cc: Federal-State Joint Board on Universal Service and Staff
Chairman William Kennard
Commissioner Michael Powell
Kathryn C. Brown
Dorothy Attwood
Sheryl Todd (with diskette)